



Legislative Research Council

MINUTES

Education Funding Formula Study Committee

Representative Jacqueline Sly, Chair
Senator Larry Tidemann, Vice Chair

First Meeting
2013 Interim
June 19, 2013

Room 413
State Capitol
Pierre, South Dakota

Wednesday, June 19, 2013

The first meeting of the Education Funding Formula Study Committee was called to order by the Chair, Representative Jacqueline Sly, at 10:00 a.m. in Room 413 of the State Capitol in Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Representative Jacqueline Sly, Chair; Senator Larry Tidemann, Vice Chair; Senators Jean Hunhoff, Al Novstrup, Billie Sutton, Bill Van Gerpen and Chuck Welke; and Representatives Dan Dryden, Mary Duvall, Don Haggar, Jenna Haggar, Ann Hajek, Kathy Tyler, and Mike Verchio. Senator Jim Bradford was excused.

Staff members present included Clare Charlson, Principal Research Analyst; Annie Mehlhaff, Principal Fiscal Analyst; and Traci Thompson, Legislative Secretary.

(NOTE: For purpose of continuity, the following minutes are not necessarily in chronological order. Also, all referenced documents distributed at the meeting are attached to the original minutes on file in the Legislative Research Council (LRC).)

Opening Remarks

Representative Jacqueline Sly, Chair, reminded the committee members of the three areas of focus which make up the scope of the study:

- (1) The funding formula and how responsive it is to improving graduation outcomes;
- (2) The manner in which technology is affecting education with particular attention to the manner in which it has changed teaching methods; and
- (3) Why certain districts have come to rely on opt-outs from the property tax levy limitations and, similarly, why certain districts have been relying on revenue from their capital outlay funds.

Reports on Listening Sessions conducted by SASD and ASBSD

The School Administrators of South Dakota and the Associated School Boards of South Dakota invited the members of the committee to take part in listening sessions that were conducted in Aberdeen, Rapid City, Hartford, and Mitchell. The sessions brought together

legislators, school officials, and others to discuss education funding, the challenges that school districts are currently facing, and how those challenges might be overcome.

Below are some of the issues that were raised at each listening session by location.

Aberdeen:

The challenge of recruiting and retaining qualified staff, and being able to pay them adequately;

The increasing cost of health insurance;

The increasing cost of fuel; and

The increasing number of students with special needs and how it is affecting schools.

Rapid City:

The per student allocation and the expenses it is to cover;

The lack of valuation for the capital outlay fund in certain districts;

Possible other sources of revenue to fund education;

The difficulty in budgeting from year to year based on uncertain funding;

The elimination of elective courses;

The large number of teachers who will retire over the next few years; and

The possible reallocation of funds with more going into pre-kindergarten and career and technical education.

Hartford:

Teacher retention and retirement;

The possibility of eliminating grant money and adding more funds into the funding formula;

The higher costs involved in teaching the growing number of economically-disadvantaged students; and

The possibility of providing more time for professional development for teachers and administrators.

Mitchell:

The need for mentoring for new teachers;

The ways school districts are coping with funding shortages;

The low salaries paid to teacher's aides which are causing them to leave the school system;

The high teacher turnover rates which are projected over the next several years; and

The impact technology has on the school districts.

Senator Tidemann, Vice Chair asked about teacher recruitment and whether there were more problems with certain grades or certain subject matter. **Representative Verchio** said that the problem is with finding qualified high school and middle school teachers. He felt that finding qualified grade school teachers was not as big of a problem.

Representative Sly made the comment that all districts are struggling and that smaller districts sometimes have to keep less than adequate teachers just because they are unable to replace them. **Senator Sutton** discussed the disparity between applicants applying for jobs in larger schools rather than in smaller schools and felt that larger communities have more to offer which makes it harder for smaller communities to find teachers. **Senator Welke** mentioned that the number of students majoring in Education at Northern State University has declined.

Several legislators felt that rolling grant dollars into the funding formula would be too big of a risk since it is one-time money and can't be relied upon from year to year. Senator Welke mentioned that grants, many times, have a matching amount and they usually come with requirements for a certain outcome in order to receive the money. He said there would be no incentive to go above and beyond if it's all rolled into the funding formula.

Prior Legislative Interim Studies On Education

Clare Charlson, Principal Research Analyst, provided the committee with information on past legislative interim studies that have focused on education issues (**Document #1**). She discussed the committees that were formed since 1995, the study assignments for each committee, any legislation that came out of those committees, and whether the legislation passed or failed.

Property Assessment and Taxation

Mike Houdyshell, Director of Property Tax and Special Revenue with the Department of Revenue, provided the committee with a presentation including information on what is a property tax; the history of property taxes in South Dakota; the five steps taken to determine the amount of taxes a person or entity owes; the assessment and appeals process; the property tax limitation system; the projected historical and actual growth of property taxes; opt outs for school districts; and a review of the taxable valuations by category and where the property tax revenues go (**Document #2**). He also provided information on the statute dealing with raising additional school revenue (**Document #3**) and the list of the schools that have an active school opt out (**Document #4**).

Senator Novstrup noted that there is quite a discrepancy between the actual value of agricultural land versus what the state says its value is with regard to the productivity methodology. Senator Sutton asked what effect the higher valuations in agricultural land had on owner-occupied land and the other property, overall, in terms of the dollars that are collected. Mr. Houdyshell said that valuations of agricultural land are going up and since owner-occupied and other valuations have pretty much stayed flat, the levies for agricultural land are going down and the other levies are going up.

The State Aid to General Education Formula

Jim Terwilliger, State Economist with the South Dakota Bureau of Finance and Management, presented the committee with information on the State Aid to General Education Formula. His presentation included information on historical enrollments; the calculation of the per student allocation (PSA); local need, the determination of local effort, and state share; the levy adjustment and tax shift necessary to comply with the Cutler/Gabriel

amendment; opt outs; and the funding provided to sparse school districts. He also discussed the State Aid to Special Education formula and the extraordinary cost fund for special education (**Document #5**).

Representative Sly asked if there was more than one way to determine or calculate the Consumer Price Index (CPI). Mr. Terwilliger responded that there are several different ways of calculating the CPI and that the one used by the state is a common one that shows inflation.

Representative Hajek asked about the distinct difference between the mil levy rates for agricultural land versus owner occupied. Mr. Terwilliger responded that mil levy rates are adjusted based upon the fact that smaller agricultural communities or rural areas don't have as many students as do the more populated areas.

Representative Sly asked whether it was accurate to say that the state share of the PSA has decreased while the local effort has gone up. Mr. Terwilliger said that the state share has gone down, that prior to 2012, the state share was 56.5% and in 2012, it went down to 53.8% because of the structural deficit.

Senator Hunhoff asked what is taken into consideration regarding the rebasing that is done every three years in the special education. **Tamara Darnall, Director of the Division of Finance and Management for the South Dakota Department of Education**, said that they take into account all the expenditures and divide that by the number of students in each disability level, determine the costs for each year, and then see what the federal levels are and use that.

School District Funds, Prior School Funding Formulas, and Education Data

Tamara Darnall presented information on the various types of funds that school districts receive and how those funds may be used. The funds come from federal, state and local sources and include certain other revenues that not all school districts receive. Ms. Darnall also showed the committee members how to access the wealth of education data that is available on the Department of Education website. Lastly, she discussed the history of school funding formulas in the state, and how the organization of school districts has evolved over the years (**Document #6**).

Senator Novstrup mentioned that it looked like there were several districts that did not have enough valuation for adequate capital outlay funds and asked how many districts fall into this category. Ms. Darnall stated that there are districts that will never have enough due to their small size, suppressed land values, or the fact that they contain a lot of state-owned land or federal land. **Senator Van Gerpen** noted the recent trends regarding capital outlay funds flexibility, and that nearly every district has doubled its expenditures in a single year. **Representative Dryden** asked how many school districts are using the temporary capital outlay funding. Ms. Darnall responded that for the most recent fiscal year, 102 districts out of 151 used the capital outlay fund flexibilities. Senator Welke commented that this was a very disturbing trend and, given the fact that the Legislature just recently extended this an additional four years, schools are going to be in a difficult situation by 2018 if they continue to rely on capital outlay. Senator Sutton mentioned that many of these districts that don't have

capital outlay funds contain a lot of reservation land and have relied on substantial Impact Aid. However, with the sequestration and the federal cuts, these districts may not continue to get the amount of Impact Aid they have relied upon in the past.

Senator Tidemann asked if the Department of Education looked at five-year teacher retirement projections. **Melody Schopp, Secretary of the Department of Education**, said that they do look at analyses and they do have reports, but with people working longer, it can be difficult to project retirement data.

Public Testimony

Joy Smolnisky, Director of the South Dakota Budget and Policy Project, distributed a handout on the per-student funding in South Dakota (**Document #7**). The handout illustrates how the per-student funding varies among students in South Dakota, among students in surrounding states, and throughout the nation. When looking at the data over the past ten years, Ms. Smolnisky noticed that South Dakota has consistently lagged both the surrounding state average and the national average in per-student funding for education. She said the research shows that the reason for the lag is because the state funding is not adequate. Over the past ten years, our state funding has gone from 38% below the national average to 46% below the national average. In comparison to our neighboring states, ten years ago our state funding source was 33% below the average in the per-student state funding and now it is 53% below.

Rob Monson, Executive Director of the School Administrators of South Dakota challenged the members of the committee to meet with school administrators and school board members to hear firsthand the challenges they are facing in school districts today. He noted that schools in the state are in a crisis situation, and asked for the committee's help in seeking immediate solutions.

Senator Hunhoff asked if there is something different that the schools are doing now to adapt to the increased guidelines that schools must follow. Mr. Monson said that teaching methodology has definitely changed, and technology is different. He mentioned that several teachers do what is called "flipping a classroom" where they have students watch a video at night and then discuss it in the classroom. He said that there are lots of innovative things like that being done, but that it takes time and dollars. He challenged the committee to go into the classroom and see what it is like today.

Senator Tidemann asked about the school calendars in South Dakota and if it would be possible to add days to allow for more time to complete all the requirements and with that, increase the funding to go along with it. Mr. Monson said that it could be explored. He noted that some educators want more professional development days, although some teachers may question why they can't get more pay and not work additional days.

Representative Don Haggar said rather than looking at the situation as a "crisis", he would like to think of it as a "crossroads". He felt that students are learning very differently now with technology and was wondering how schools might embrace this and use it to their advantage without spending more money. Mr. Monson stated that the word "crossroads" indicates you have choices, and he felt that there weren't a lot of options right now. The school districts

have pretty much had to cut everything and they don't have extra money for technology. He felt innovative things are great, but not if you don't have the money to utilize it.

Dick Schaffan, Superintendent of the McIntosh Public School District, thanked the members of the committee for serving the people of South Dakota. He reemphasized that schools in South Dakota are in a crisis. Teacher applications are decreasing dramatically, and money is a huge factor. Due to sequestration, funding for Title 1 is being cut. Districts that receive Impact Aid have already experienced ten percent cuts in that funding. Mr. Schaffan stated that he worries about the lack of applicants for teaching positions in his district.

Paul Dennert, Brown County farmer, noted that he was a legislator when the current funding formula was enacted and he wanted to give the committee background information. He said he believes agriculture producers are paying their fair share of property taxes, but he indicated that there are a lot of discrepancies using "actual" versus "projected" agricultural values, and he felt the state could be under projecting the revenue that agricultural land will be bringing in to the formula with the increased valuation.

Senator Novstrup conducted a short presentation showing the inconsistencies within the mil levies for the three classifications of property.

Committee Discussion and Planning

The committee decided to hold a two-day meeting in Pierre on July 29-30, 2013. The committee will spend one day learning about and, hopefully experiencing firsthand, the use of technology in classrooms today. The committee will look at student graduation outcomes and how to possibly improve them on the second day.

Adjourn

REPRESENTATIVE HAJEK MOVED, SECONDED BY REPRESENTATIVE DON HAGGAR TO ADJOURN. The motion prevailed unanimously on a voice vote.

The committee adjourned at 4:28 p.m.



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